

February 2019

Trust in water

Variation of Dŵr Cymru Cyfyngedig's appointment to include Parc Llanilid

1. About this document

Variation of Dŵr Cymru Cyfyngedig's appointment to include Parc Llanilid

On 20 August 2018, Ofwat began a [consultation on a proposal](#) to vary Dŵr Cymru Cyfyngedig's ("**Welsh Water**") appointment to become the water and sewerage services provider for a development in SSE Water Limited's ("**SSE Water**") water supply area and sewerage services area called Parc Llanilid in Rhondda Cynon Taf ("**the Site**").

The consultation ended on 3 January 2019. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 11 January 2019, we granted Welsh Water a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

Contents

1. About this document	2
2. Introduction	4
3. The application	6
4. Responses received to the consultation	7
5. Conclusion	8
Appendix 1: Site Map	9

2. Introduction

The new appointment and variation mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of water and sewerage services for a specific area. This mechanism can be used by new companies to enter the market and by existing companies to expand into areas where they are not the appointed company. In this case, Welsh Water applied to replace SSE Water to become the appointed water and sewerage company for the Site.

A company may apply for a new appointment (or a variation of its existing appointment to serve an additional site) if any of the following three criteria are met:

- None of the premises in the proposed area of appointment is served by the existing appointed company at the time the appointment is made (the **“unserved criterion”**);
- Each premises is likely to be supplied with at least 50 mega litres per year (in England) or at least 250 mega litres per year (in Wales) and the customer in relation to each premises consents (**“the large user criterion”**);
- The existing water and sewerage supplier in the area consents to the appointment (**“the consent criterion”**).

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our duty to protect consumers wherever appropriate, by promoting effective competition. In particular, in relation to unserved sites, we seek to ensure that the future customers on the site – who do not have a choice of supplier – are adequately protected. When assessing applications for new appointments and variations, the two key policy principles we apply are:

1. Customers, or future customers, should be no worse off than if they had been supplied by the existing appointee; and
2. We must be satisfied that an applicant will be able to finance the proper carrying out of its functions as a water and sewerage company.

Entry and expansion (and even the threat of such by potential competitors) can lead to benefits for different customers (such as household and business customers and developers of new housing sites). Benefits can include price discounts, better

services, environmental improvements and innovation in the way services are delivered.

Benefits can also accrue to customers who remain with the existing appointee, because when the existing appointee faces a challenge to its business, that challenge can act as a spur for it to improve its services. We believe the wider benefits of competition through the new appointments and variations mechanism can offset any potential disbenefits for existing customers that might arise. We consider these potential disbenefits in more detail below.

3. The application

Welsh Water applied to be the water and sewerage services appointee for the site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Welsh Water will serve the site using its own existing infrastructure.

3.1 Unserved status of the Site

To qualify under the unserved criterion, an applicant must show that at the time the appointment is made, none of the premises in the proposed area of appointment is served by the existing appointee. SSE Water provided a letter, dated 13 June 2018, confirming that, in its view, the Site is unserved. Having reviewed the facts of this Site, and taking into account the letter from the incumbent, we considered the Site to be unserved.

3.2 Financial viability of the proposal

We will only make an appointment if we are satisfied that the proposal poses a low risk of being financially non-viable. We assess the risk of financial viability on a site-by-site basis and also consider the financial position of the company as a whole.

Based on the information available to us, we concluded the Site demonstrates sufficient financial viability, and Welsh Water has satisfied us that it can finance its functions and that it is able to properly carry them out.

3.3 Assessment of ‘no worse off’

Welsh Water will charge end customers in line with their charges to all customers within their supply area, which SSE Water currently match.

Our view is that customers on the Site would be no worse off than they would be if SSE Water were to be the customers' water and sewerage services supplier.

3.4 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer said that it wanted Welsh Water to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received two responses to our consultation; from the Environment Agency and the Consumer Council for Water (“**CCWater**”). We considered these responses before making the decision to vary Welsh Water's appointment. The points raised in the response are set out below.

4.1 CCWater

CCWater responded and expressed disappointment that some compensation, under the [Guaranteed Standards Scheme](#), will decrease if Welsh Water is appointed as water and sewerage services provider to this site, but noting that Welsh Water offer a social tariff, not offered by SSE Water. As this is likely to benefit more customers than those who will be affected by reduced compensation, the CCWater were supportive of Ofwat's proposal to grant this application.

4.2 Environment Agency

The Environment Agency responded to state they had no objections to the variation.

5. Conclusion

Having assessed Welsh Water's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Welsh Water's area of appointment to allow it to serve the site for water and sewerage services. This appointment became effective on 12 January 2019.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

February 2019

© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

